

**ST. MARY'S UNIVERSITY COLLEGE**  
**FACULTY OF BUSINESS**  
**DEPARTMENT OF ACCOUNTING**

**PRACTICE AND COMPLIANCE WITH THE LAW OF VAT**  
**/INSAMEPLE OF LARGE TAXPAYERS/**

**BY:**

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**MARCH 2012**  
**SMUC**  
**ADDIS ABABA**

**EVALUATION OF THE PRACTICE AND COMPLIANCE WITH  
THE LAW OF VAT  
/INSAMEPLE OF LARGE TAXPAYERS/**

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1. Background of the Study**

Every government needs dependable and sustainable domestic revenue so as to run its function, for this the most highly useful revenue generating activity is tax. As compared to the developing countries, the developed countries have been able to generate substantial revenue through imposition of taxes. The tax system need to be economically efficient, meaning the tax system should not have impact on the allocation of resources. The tax system, a country adopt should be easy and in expense to administer and that should be able to respond to changing economic circumstances. Tax payers should also be able to determine what they are actually paying so that political system can more accurately reflect the preference of individual. Taxes are most frequently classified as direct and indirect.

Direct tax is levied on the income, profit, capital gain and wealth of persons and companies, the most well-known direct tax being personal income tax. On the other hand.

Indirect taxes are levied on transaction, goods and services and so only indirect in persons, one of those indirect taxes is value added tax(VAT).

Adoption of VAT began slowly. Initially VAT was introduce in France in 1948, where it was firstly applied up on the manufacturing stage and gave credit for tax on capital goods by 1969 only eight nations adopted VAT. Out of the eight nations, Cotedivore is the first country in Africa to introduce VAT. Since 1979 the vat spread rapidly in the industrialized as well as the developing countries. This makes vat the first tax system, which spread quickly with in a short time after its introduction. As of 2003, from the 53 member countries of Africa union about 31(59%) of them have introduced VAT. Following this, by recognizing the problem of sales tax, and to speed up economic development, the government of federal democratic republic of Ethiopia introduces vat on Jan 2003 by replacing the sales tax. The VAT proclamation NO 68/1993,(as amended) has come in to force of Jan 1<sup>st</sup> 2003. The replaced sales tax was levied only at the point of sales, as a result of this it had a



double taxation (tax acceding effect) and has several tax evasion problems. VAT on the other hand, is applied one value added at each stage of production and distribution, hence would solve the double taxation problem and reduces tax evasion with it/s modern administration system.

For administrative feasibility vat has a threshold of Br 500,000 annual turnover for enterprise to be requested as a tax payer at the rate of 15% and 0%tax. Value added tax also provide a tax exemption for goods and services according to its proclamation and regulation issued pursuant to that proclamation.

### **1.2.Statement of the Problem**

Value added tax is the recent phenomenon in Ethiopia. The introduction of vat law intended to be a tax on the final consumers. In other words, a business which is buying goods or services would generally not suffer by VAT because it could pass the burden of the tax to its consumers. So the customers and the business person both become case of a problem. Various problems were encountered during the implementation of VAT for the past experience. A number of tax payers were found been collecting vat without being requested a vat payers. While others were have collected VAT with other non-VAT collecting receipts and other fraudulent.

### **1.3. Objective of the Study**

The general objective of the study is to see the practice and compliance with the law of VAT on selected large tax payers. In addition to this objective, the study has the following objectives:

- o To investigate, whether the implementation of VAT has met its objectives of generating more government revenue, encouraging investment and export, and modernizing the tax administration.
- o To see the rules and regulations of VAT and how those tax payers do their work with complaining the law.

### **1.4. Significance of the Study**

In order to fulfill the socio-economic needs of the society, there must be effective and efficient collection of tax to increase government revenue. So, it could be efficient performance of the VAT if the tax payers have enough knowledge about rules and regulations of the VAT. The researcher believes that the result of the research work: -

- a) To enable the user to see the similarity and differences among the large tax payers (LTIO) in practicing VAT.
- b) May add to some existing literature and may serve as an additional source of reference.
- c) To enable the Ethiopian revenue and Custom Authority to see how VAT which is developed used as a measure of their success.
- d) Enriches the knowledge of the leader on the laws and practice of VAT.
- e) Gives way for other researches who wants to make further investigation in the area of VAT and to conduct detailed researches on the issues.

We have got the sources from different papers and [www.erca.gov.et](http://www.erca.gov.et) .

### **1.5. Scope of the Study**

Since it is difficult to assess the whole VAT payers, due emphasis have given to the selected large tax payers in Addis Ababa, Ethiopia. This research will advocate to see the VAT practice in Addis Ababa LTO and their compliance with the VAT laws, it exclude from its scope the impact of VAT compliance or non compliance on business, government etc.

### **1.6. Limitation of the Study**

When conducting this study there are some limitations:

- o Because vat is the recently happened phenomenon, the researcher faced some difficulties in collecting published secondary data.
- o There is time constraint when collecting the data and distribute questionnaires.
- o There are some problems of co-operation from the selected business staff in telling the truth about their VAT experiences

## **1.7. Research Methodology**

### **1.7.1. Research Design and methodology**

In order to find sufficient and relevant information about the topic, the researcher used a descriptive type of study. The researcher also used both primary and secondary data to get the necessary information. In the primary data, we used questionnaires to get information about the practice of VAT from the selected large taxpayers. In the secondary data, we used the Ethiopian Revenue and Custom Authority (ERCA) published materials, proclamation and council of minister VAT regulations, from different books that are related with VAT, from company's reports and Internet.

### **1.7.2. Target Population**

The target population considered throughout this study includes some large tax payer organizations in Addis Ababa.

### **1.7.3. Sampling Technique**

Since it is difficult to cover the whole population, the researcher selected some large taxpayers such as:-

- ECAS Trading PLC
- Haron Computer Trading PLC
- Cuntry club developers PLC
- Betret International PLC

But the researcher using random sampling technique.

### **1.7.4. Methods of Data Analysis**

The data analysis is part of the paper, which is devoted to analyze and interpret the data. The study was adopted qualitative means of analyzing. Information that was gathered through the use of questionnaire is analyzed and also presented qualitatively.

Source: from [www.erca.et](http://www.erca.et) and some research papers

### **1.7.5. Organization of the Study**

This research contain four chapter the first chapter presented introduction, background of the study, statement of the problem, objective of the study, significant of the study, scope of the study, limitation of the study, research methodology. The second chapter presents, the related literature review during the research, phase of the study. The third chapter presents data analysis and interpretation about sample technique. The fourth chapter contains summary, conclusion and recommendation of the study.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1. VALUE ADDED TAX/VAT

##### 2.1.1. Definition of Terms:-

It is important to familiarize the reader with terms related to taxation so as to have a good understanding of the whole concept.

**Tax base:-** the tax base define the way in which different forms of income, expenditure, wealth, or any other factor that determine to be taxed.

**Tax rate: -** determines the proportion that is taken in tax. Alternatively, it can be said that the tax base is the object to which the tax is applied while the tax rate is the amount of tax applied per unit of tax base. The base of each tax has to be defined legally and it has to be quantified for the purpose of determining the tax liability of an individual taxpayers. A tax base may have a time dimension also, for example, income tax is usually on annual basis.

**VAT: -** is a tax on consumer expenditure. It is collected on business transaction and imports. Most business transactions involve supplies of goods or services. VAT is payable if there are supplies made in Ethiopia. Supplies are outside the scope of the tax if they are made by someone who is not a taxable person or not made in the course of furtherance of business. VAT is included on the selling price (but shown separately) and collected by the business. The VAT on these supplies is called **out put tax**. When a business that is registered for VAT purchase goods and services the VAT paid on these supplies received is called **input tax**. It includes not only the VAT on Purchases of raw materials or on goods purchased for resale, but also the VAT on things like Office equipment, for the business Commercial vehicles used in the business for the carriage of goods, The telephone bill

Payment for services in connection with the business like accountant's or lawyers' fees it does not include VAT paid on goods or services from someone else's business or VAT on private purchases such as furnishings for the home of the proprietor. VAT charged in these circumstances is not considered as input tax.

**Standard rate:** in general the value added tax rate of 15% would be levied on the value of every taxable transaction by a registered person. And every import of goods and services other than exempt import.

**Zero rate:** the export of goods and services international transport of goods or passengers and supply of gold to the national bank of Ethiopia. The supply is charged with VAT at 0% but credit can be taken for VAT paid on purchases used to make the supply.

**Exemption:** the supply is exempted from VAT. No VAT is charge on the supply and no credit can be taken for VAT paid on purchases used to make the supply.

### **2.1.2. Need for VAT**

Value added tax is required mainly to prevent cascading, that is to avoid taxing any ingredient of the final product more than once (gills, etal, 1997) for example, if tax is imposed on sales by a steel manufacturer to an automobile manufacturer and again on the full value of the automobile. When it is sold to a wholesaler or retailers, the steel ingredient is taxed twice. Alternatively cascading occurs when a tax on inputs is not refundable and charged again on output.

It is said earlier that one of the requirements for an efficient tax system is the fact that the tax levied should be kin proportion to the level of income. VAT fulfils this requirement in that its burden is shared among all residents, each according to his level and type of consumption. Moreover, it has the advantage of reducing the cost of production of industries through its inherent refund system and the fact that it does not burden exports.

The need for VAT also emanates from the very weaknesses of the sales tax that it is intended to

Replace (purhoit2000). Firstly, sales tax has a cascading effect as a result of the fact that it is levied on the gross value without allowing any credit or set-off for the taxes paid on inputs. As a result, consumer's prices will increase by an amount higher than what accrues to the exchequers by way of revenues from it. Secondly, uncontrolled incidence of the tax especially in the production distribution process. Thirdly, there is the problem of multiplicity of rates which not only dulls the progressive effects that are anticipated but also generates the need for further calculations by the seller's tax; most states levy an

additional sales tax or a sure charge. Additional tax is based either on their total turnover or on the graduated turnover with different rates for different slabs of turnover.

### **2.1.3. VAT Administered**

VAT is administered by the ERCA, ECA and the Regional Government's Finance Bureau. The ECA administers VAT on imports into the country. The ERCA with its VAT department, large taxpayers' office and branch offices (Addis Ababa branch and regional branch offices) administers federal and joint VAT on domestic transactions, while regional governments' finance bureaus administer their own VAT Revenues. With this overview of the design and administration of VAT in Ethiopia the following sections present how the tax authorities perform their responsibilities with respect to the major VAT administration tasks, including taxpayer identification and registration, VAT filing and payment, control of VAT filing and payment, VAT invoicing, VAT auditing, penalties and VAT refunds.

**VAT invoicing** Jantscher (1990) noted that unlike developed countries most developing countries require some form of invoicing for all transactions subject to VAT including sales to final consumers. In Ethiopia, the VAT legislation states mainly two things. Firstly, the waiver of traders that have transactions with total consideration exceeding ETB 10 from the requirement to issue invoices and secondly, simplification of the VAT invoice.

To facilitate the implementation of these provisions, the VAT legislation empowered the Ministry of Revenue to issue the relevant directives. However, as the interviews with tax officials showed, until June 2007 the pertinent directives had not been issued. Consequently, all registered traders.

**Taxpayer identification and registration** as mentioned previously, the VAT legislation requires businesses undertaking taxable activities in Ethiopia with an annual turnover of ETB 500,000 and more to register for VAT. After the VAT was operational with such a registration requirement, the authority devised forced-registration schemes. These schemes include selective registration requirements that compel all businesses engaged in a specific sector/form of ownership to register for VAT regardless of the level their annual turnover. In Ethiopia, where the awareness of taxpayers, the culture of paying taxes and the capacity of tax administrators appear to be poor, using sector or ownership

specific registration requirements is sensible. However, caution should be exercised in selecting the sectors that should be covered by the VAT. The decision ought to be based on a careful examination of sectors' nature, volume of operations and the level of keeping records. Limiting the number of sectors to be covered by VAT under such a requirement at a manageable level is advisable. In addition to the sector specific (selected) registration requirement, to encourage VAT registration, government institutions are obliged to transact with VAT registered.

The ERCA and ECA have merged since the year 2008.

Examination of survey responses revealed several problems related to taxpayers registration. For example, 13% of (taxpayer survey) and 62 % of (tax practitioner survey) respondents indicated the prevalence of VAT unregistered businesses and urged the government's due attention. The dominance of VAT unregistered businesses, according to survey respondents, resulted in uneven market competition and a loss of market share and profitability by registered businesses. Survey respondents identified weaknesses in the tax administration and exclusion of businesses with annual turnover less than ETB 500,000 as the major causes of the prevailing competition problem.

Ethiopia is a federal country with two self administering cities (Addis Ababa and Dire Dawa cities) and nine regional governments (Amhara, Afar, Oromia, Tigray, Benishangul, Gambella, Somali, Southern Nations, Nationalities and People, and Harari regional governments). According to this scheme, such businesses as importers, plastic and plastic products factories, computer and computer accessories suppliers, goldsmiths, electronic appliances suppliers, and private limited Companies are required to register for VAT. Businesses for transactions valued ETB 100,000 and above. In general, according to discussion with tax officials, these schemes were designed to help the administration.

In bringing taxpayers (that were required to register but did not do so) into the VATnet.

At March 2008, there were about 32,840 taxpayers registered for VAT (EERCA2008).

**VAT filing and payment** VAT filing practices different among countries. As Jantscher (1990) noted, in some developing countries taxpayers effect provisional payments

Source from ERCS news report erca [www.web.sit](http://www.web.sit)

monthly and file returns annually; while most developing countries require monthly filing and payment of VAT and do not require taxpayers to furnish a yearly return. In the case



of Ethiopia, taxpayers are required to file VAT returns accompanied by the appropriate payments year-end reconciliation requirement. Further, the VAT legislation allows taxpayers a 30-day period within which to file returns and make payments. Nevertheless, in practice, according to the outcomes of interviews with tax officials, there are three VAT reporting periods depending on whether a taxpayer is a nil, credit or payment filer. The reporting time from the end of on monthly basis and there is no the accounting period is 10 days for nil filers, 20 days for credit filers and 30 days for payment filers. According to tax officials, taxpayers that fail to meet the reduced deadlines would not be fined as long as they report within 30 days from the end of the accounting period. However, such taxpayers would be given verbal warning that if they do not keep the reduced reporting periods, penalty would be applied.

Concerning the reporting periods, 15.5 per cent of taxpayer survey respondents indicated that the reporting period, especially the 20-day period for credit filers, is very short. This is a problem especially for taxpayers conducting business at several locations since gathering documents from different offices takes time. Further, according to survey respondents, the shortness of the reporting period puts substantial pressure on employees and disrupts the normal operation of businesses. The other aspect worth assessing is the return filing process. Return filing could be done by going to the premises of the tax authority in person, through the post office or electronically. In Ethiopia, taxpayers file VAT returns by going to the tax office in.

**VAT audit** there appears to be a considerable VAT evasion in developing countries (Pedone1982 cited in Jantscher 1990). As Edmiston and Bird (2004) noted the only real solution to the evasion problem is a good tax administration and, especially, a strong VAT audit program. A strong VAT audit program needs, among other things, an appropriate audit case selection method. Jantscher (1990) noted that cross checking Simplification of the VAT invoice pertains to the format and the amount of information to be contained in the invoice.

Until June 2007, there was no simplified VAT invoice in Ethiopia. Jantscher (1990) noted that the use of invoices as a strategy in fighting VAT evasion is likely to be jeopardized by, among others, the attitude of consumers. Further, Jantscher showed the use of invoices purchases and sales data by various taxpayers would provide an effective

tool for selecting VAT taxpayers for audit and hence improve audit results. In respect of VAT audit in Ethiopia, the in-depth interviews with tax officials showed the selection of audit cases by the audit selection committee. The selection criteria include: credit declaration, nil VAT declaration, non-filers, unusual VAT filing patterns, and information obtained from third parties and the ERCA. Cases selected based on the above criteria would be subjected to audit. In the 2004-05 fiscal year, tax authorities audited 189 taxpayers out of 17,278 registrants (1.1 per cent). Similarly, in the 2005-06 fiscal year, 347 taxpayers out of 22,215 registrants were audited (1.6 percent). These figures suggest the low audit rate which may have negative impact on the revenue potential of VAT and the level of compliance. This low audit rate is may be due to resource constraint. The resource constraint can be assessed in terms of the number of VAT administrative personnel, auditors in particular, in relation to the number of VAT registrants and also total number of employees in the tax authorities. Taking the total number of VAT administrative personnel in relation to the number of VAT registrants in the fiscal year 2004-05 showed a ratio of 1:2. Similarly, the number of auditors to total number of VAT registrants in the same fiscal year revealed a ratio of 1:7. In addition, the proportion of VAT administrative personnel to the total number of employees at the EERCA was about 10.4 per cent. To examine whether the above ratios are sufficient, it would be worth cautiously comparing them with similar estimates in other, especially developing, countries. However, similar ratios in other developing countries appear to be unavailable. Therefore, these ratios would be scrutinized in light of features which are likely to be prevalent in developing countries, Ethiopia in particular. These features include low levels of literacy,

**Low and fragmented economy** small and inefficient VAT administration experience and poor taxpaying culture. In the context of these problems, the above estimated ratios are likely to be very small which in turn, suggests that the tax authorities are not equipped with sufficient number of personnel. Apart from the audit selection method and the audit rate, an equally important factor is the quality of auditors. In Ethiopia, the benefit schemes of civil servants (according to the Ethiopian Civil Service Regulations) widely different from those of the private sector. Consequently, as the tax authorities are governed by the Ethiopian Civil Service Regulations, their employee compensation

schemes are by far lower than those of the data was obtained from the VAT department at the EERCA. In practice, because of mainly resource constraints, most developing countries have not implemented massive cross checking schemes in their audit programs (Jantscher 1990).

During the 2004/05 fiscal year, VAT was mainly administered by the VAT department of the EERCA.

So, the computations were based on the number of VAT registrants until July 7, 2005 and the number of auditors and total VAT administrative personnel at the VAT department and regional branch offices of the EERCA. According to the data obtained from the management information system and data processing department of the EERCA until July 7, 2005 (the end of the fiscal year), 17,278 businesses were registered for VAT. Further, according to the EERCA's employee's placement document for the 2004/05 and 2005/06 fiscal years, there were about 22 auditors and 74 VAT administrative personnel (including those at regional branch offices) out of the 712 employees at the EERCA. The literacy rate for the year 2003 estimated at 42.7 per cent (CIA 2007).in particular. Examination of survey outcomes in this connection supports the above assertion. That is, 34.2 per cent of taxpayer survey respondents indicated that tax administrators are not qualified enough and also not capable of handling cases quickly, particularly at the time of audit. These taxpayer survey respondents further indicated that tax administrators lack confidence to make decisions and willingness to help taxpayers. The tax administrators also fail to give consistent information on the same VAT issues. Similarly, 55.2 per cent of tax practitioner survey respondents emphasized the lack of well trained personnel and noted the necessity of staffing the tax authorities with qualified personnel. In general, the quality of auditors (VAT administrators at large) that appears to be poor coupled with their relatively small number is affecting the effectiveness of the audit program. This is, in turn, likely to impact on the revenue that could be generated through effective audit programs and on the use of effective audits as tools of deterring non compliance. It is, thus, worthwhile for the government to consider the possibility of recruiting and retaining a sufficient number of qualified VAT administrators, auditors in particular. This can be achieved mainly through making revenue authorities autonomous in terms of setting better employee benefits schemes. As discussed in a later section, the autonomy has to be

accompanied by the government's commitment to make sufficient resources available for the administration.

**Penalties** From examination of the practices pertaining to VAT penalties, Jantscher (1990) noted that in most developing countries the stricter penalties in VAT laws are usually not applied, thus penalties have little deterrent effects. In Ethiopia, the VAT legislation proclaims that taxpayers that fail to full fill the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment. The tax authority started enforcing the penalty provisions (including the stricter ones) of the VAT legislation to some extent. For instance, although the legislation in general stipulates a penalty of 5per cent of the amount of VAT unreported/underpaid, in practice (according to the outcomes of the in-depth interviews with tax officials) a late filing penalty of ETB1,000 for each accounting period the tax remained under-reported is imposed. In30at the same time, young staff trained to be auditors would quickly leave to enjoy higher paying jobs in the private sector once they acquired the necessary accounting skills -state tax administrators have the problem of retaining personnel, especially auditors (Vehorn and Brondolo 1999).

**Different tax administrators give different information on the same tax issue.**

Considering the incapacity of the administration, the audit program in particular, taxpayers may be tempted to not comply. As Jantscher (1990) noted in developing countries taxpayers tend to register for VAT freely (to avoid taxes imposed on unregistered traders) because they know that the administration's resources are limited to check their reporting compliance.

The VAT legislation promulgates taxpayers that fail to full fill the requirements of VAT are chargeable with penalties ranging from financial penalties to imprisonment.

Journal of Tax Research Value Added Tax Administration in Ethiopia: A Reflection of Problems addition, there are cases where taxpayers convicted of VAT evasion have been fined (both money and imprisonment).

With respect to VAT penalty, 13.8 per cent of tax practitioner survey respondents indicated that the penalty is high. These tax practitioner survey respondents further noted that it is unfair to impose, practically, the same amount of penalty on taxpayers regardless of the amount of VAT reported. Similarly, 4.1 per cent of taxpayer survey respondents

indicated the lack of consistency in imposing penalties. Respondents of both surveys emphasized the importance of enhancing voluntary compliance and focusing on tax education instead of punishment when there are genuine mistakes. In general, considering that VAT is still young (introduced for the first time in the year 2003) in Ethiopia, focusing on the implementation of strict penalty revisions (like imprisonment of taxpayers) instead of taxpayers' education may have negative impact on the attitude of taxpayers beyond its deterrence effect. Further, the lack of consistency and transparency in administratively imposing the penalty may open a room for corruption. It is, thus, advisable to try to implement what is legislated in the law regarding penalties (on the financial penalty aspect).

**VAT refund** Grandcolas (2005) and Jantscher (1990) noted that managing VAT refunds is one of the challenges of VAT administrations in developing countries. In managing refunds and combating refund frauds, different countries use schemes including denial of refund claims (except to exporters), carrying forward of refund claims, demanding a third party certification of the claim, demanding guarantee, requiring taxpayers to have separate VAT bank accounts, zero rating of supplies to exporters and remission of input VAT on certain goods (mainly capital goods). Some of these schemes are not only to combat refund frauds, but are also intended to reduce the strain on business cash-flows.

Looking closely at the practices concerning VAT refunds in developing countries shows that all developing countries give refunds to exporters and some require other VAT taxpayers to carry forward their excess credits indefinitely (Jantscher 1990). In Ethiopia, as shown previously, for the purpose of refunds, the VAT legislation categorizes taxpayers into two groups: zero rated businesses (mainly exporters) and other (non-exporting) businesses. As the outcomes of the interviews with tax officials revealed, the tax authority makes refunds mainly to exporters in addition to employing.

For example, a newspaper reported that the Ethiopian Federal First Instance Court 8th Criminal Bench convicted a taxpayer of VAT evasion and passed a 10 year imprisonment and a fine of ETB 75,000 (EERCA undated).

**Voucher System** for coffee exporters. According to interviews with tax officials the first cash refund to non-exporting businesses was made in February 2007. In addition, tax officials revealed that refund claimants in the non-exporting business category are mainly

importers that claim have excess VAT credits which are not being used by carrying forward to the next five accounting periods (months). This was believed to be because at the time of import taxpayers pay VAT based on customs valuation, which is usually more than the price that taxpayers claim they sell their products. In this situation, in the opinion of the tax officials, giving refunds to taxpayers would have its own impact on the revenue position of the government. Further, the tax authority is not in a position (in terms of capacity) to administer the refund claims of these taxpayers.

In connection with customs valuation, 37.9 per cent of tax practitioner survey respondents showed that the valuations are unreasonably high. According to these survey respondents, the high customs valuation usually leads taxpayers, including genuine traders, to report excess VAT credits for a very long time. This in turn results in rejection of taxpayers' accounting records by the tax authorities and determination of taxes due using the customs valuation as a basis. This practice is resulting in higher effective taxation and is also against the generally accepted accounting principles legislated to be followed in taxation in Ethiopia. As a whole, instead of totally refusing taxpayers' refund requests, it is reasonable to re-examine the customs valuations periodically and Endeavour to check selectively the sales invoices of traders with the invoices held by, at least, government institutions. In addition, strengthening the administration capacity of tax authorities and attempting to make refunds on genuine requests deserve the government's due attention. Further, in connection with refunds, it is important assessing the practices in treating.

VAT on capital goods. In the Ethiopian VAT system, capital goods are treated in the same way as other merchandise items. Such a custom affects mainly taxpayers that are required to carry forward credit claims including those on capital goods to future periods. This procedure, apart from tying up investors' money for a very long time, is likely to constrain business cash-flows and impact negatively on investment. This coupled with the escalating inflationary trend in Ethiopia evidences the effective taxation of capital goods against the hallmark of a consumption type VAT .In light of the above, making a distinction between goods and devising a strategy by which the VAT on capital goods could be immediately refunded deserve the government's attention. In addition to the concerns discussed thus far, about 25.4 per cent of taxpayer survey respondents noted

that frequent changes in the administrative procedures, directives and personnel are impacting on the normal operations of taxpayers. About 6.7 per cent of taxpayer survey respondents also indicated that taxpayers and the society in general do not know much about the tax. These taxpayer survey respondents further noted that the tax authority has not made sufficient effort in increasing the awareness about the tax. About 34.5 per cent of tax practitioner survey respondents hence emphasized the need to strengthen the tax education program. All the above problems pertaining to the administration of VAT in Ethiopia may be due in part to insufficient resources. It is therefore important to briefly assess the resources available for the administration of VAT in Ethiopia. In this respect, Yesegat (2008) estimated VAT administrative costs in Ethiopia in the 2005-06 fiscal year to be in the range of 0.66 to 0.8 per cent of VAT revenue. Further, Yesegat (2008) through comparative analysis with similar estimates in other countries suggested that in Ethiopia VAT administrative costs are at a low level. These low VAT administrative costs, as Jantscher (1990) contended, may not imply simplicity, but may show rather that important functions are being neglected and also may mean that the administration is concentrating exclusively on the largest taxpayers and ignoring the others. In this context the low level of VAT administrative costs in Ethiopia together with the administrative problems presented previously suggests that the tax authorities are not equipped with the necessary facilities (human and material). The relatively low level of VAT administrative costs appears to have contributed to the tax authorities' inability to implement the VAT legislation fully. As Bird (2005) noted the existence of a fundamental gap between the institutional requirements for a good VAT administration and the real fiscal institutions in place in a country is one of the factors contributing to the poor and unfair performance of VAT. In general, in addition to the apparently low level of VAT administrative costs in Ethiopia, the above suggested strategies (to mitigate the caveats in the administration of VAT) boil down to the importance of accessing sufficient resources and equipping the tax administration with a sufficient number of skilled personnel and physical resources. It is hence proposed that the government ought to consider the possibility of recruiting and retaining a sufficient number of qualified VAT administrators. This can be achieved mainly through making revenue authorities autonomous in terms of setting better employee benefit schemes. The autonomy in the tax administration needs to be

accompanied by access to resources for the availability of sufficient resources is fundamental in strengthening the administration of VAT in the country. Of course increasing the resources by itself would not create effective VAT administration.

#### **2.1.4. VAT computerization**

The computerization TIN system provides the foundation to support the computerization of the tax operation. The introduction of TIN system and the development of the VAT computerized system are provident the foundation for the development and integration of integrated tax system.

Most tax jurisdictions in the developing countries have introduced computer systems concurrently with the implementation of a VAT. The tendency has been to adopt a computer system that has already been developed rather than develop a system from scratch. Most jurisdictions lack capacity to develop their own systems in the relatively short time frame available.

It is absolutely essential that develop the internal capacity to manage any computerized system, very clearly, the user organization(registration, areas management, returns and payment, processing, audit etc)have the responsibility to ensure that the computer system adopted meets their requirements prior to, and after implementation and is maintains satisfactory, with respect to data integrity, functionality.

Once a system is implemented badly, the effort to correct the situation entails significant costs the diversion of staff from revenue generating activates and the general lack of necessary management information on the sate of VAT operations.

Computerization is essential to change the manual ledger system to ensure better management of the taxpayers' accounts. It helps the ledgers to update instantly with instantly with information on assessment, refunds and interest.

#### **2.1.5. VAT Accounting**

Refers to the value of supply on which the taxpayer calculates VAT on VAT sales invoice and the subsequent record keeping process.

Taxpayer is at least expected to keep:

- o Sequentially numbered VAT each and credit sales invoices.
- o Chronologically filled purchases and business expenditure



- o Original books of accounts
- o General ledgers
- o Subsidiary ledgers
- o Perpetual inventory records
- o Project costing record

The objective of assessment of the taxpayers whether or not they are Accounting for VAT is to Provide details of the taxpayer's taxable and tax exempt VAT operations and the related VAT accounting to support the development of the audit plan and audit tests, and to provide other ERCA personal with pertinent information on the taxpayer's VAT perorations (VAT Audit Manual,2005)

#### **2.1.6. Problem of Tax Payers**

Those reside in remote areas (where the ERCA does not have branch offices) and are forced to go to the capital city, Addis Ababa, or nearby cities where the tax authority has a branch office. In addition, in terms of the method of payment, in Ethiopia taxpayers with VAT liability greater than ETB 1,000 may be acquired to effect payments with bank certified payment orders (CPOs). The use of CPOs is, in fact, to mitigate the problem of insufficient fund balance that might arise from accepting taxpayers' cheques. Nevertheless, such a practice imposes a cost on taxpayers in the form of out of pocket payment (CPO preparation fees charged by banks) and time costs. Generally, the above mentioned practices pertaining to reduced VAT reporting periods, the method of effecting payments and the return filing process are likely to be translated into increasing taxpayers' compliance costs, especially on small businesses. It is therefore worthwhile to strengthen the administration capacity of the tax authorities and reduce the burden on taxpayers (because this may, in turn, have an impact on their compliance decisions).Control of filing and payment In administering VAT in Ethiopia tax authorities use computer programs, namely: Standard Integrated Government Tax Administration System (SIGTAS) and Automated System for Customs Data Management (ASYCUDA). The computer programs are used to maintain taxpayer register and process VAT returns. Detection of non-filers seems to be carried out mainly manually. As the outcomes of the in-depth interviews with tax officials showed, the tax authority tries to identify non-filers

in collaboration with the Ministry of Trade and Industry. In Ethiopia every trader is required to renew business license annually with the pertinent offices under the Ministry of Trade and Industry or regional governments. To renew business licenses, traders are required to produce evidence from tax authorities that all taxes have been paid. The tax authorities on their part, before providing the evidence to taxpayers, check if there are delinquent taxes (including VAT). In addition, tax authorities endeavor to follow-up non-filers identified by the computer programs. However, because of shortage of manpower, such follow-ups are usually carried out once in a 3 to 6 month period. The above practices pertaining to controlling VAT filing and payment delay the collection of the tax and jeopardise the government's revenue. It is, hence, suggested that to ameliorate the potential impact of non-filers on the revenue performance of the tax, strengthening the administration capacity of the tax authorities, and effectively using the computer programs coupled with timely follow-up of non-filing taxpayers are worthwhile to consider.

This includes Federal or joint taxpayers who file their returns with the EERCA including its branch offices. The segregation of the reporting period is likely to impose psychological burden on taxpayers in addition to out of pocket and time costs. The psychological burden may be due to the verbal warnings of tax administrators on late filers. Psychological burden may also arise because of the pressure on employees that the shortness of the 20 day period causes. For discussion on compliance costs and their regressively see Sandford (1995), Evans et al. (1997) and Evans (2003). Jantscher (1990) noted that most developing countries detect non-filers manually after a long delay putting the collection of the delinquent tax at risk.

(Ethiopia to reduce the number of refund requests the government uses vouchers for coffee exporters.

Coffee exporters can use vouchers as VAT payments to suppliers of coffee for export. As per tax practitioner survey respondents, for all taxes (both income tax and VAT) the customs valuation is used as a cost basis for the determination of selling prices and the applicable taxes).

All of overview gets from [www.erca.etthe](http://www.erca.etthe) and

A newspaper reported that the Ethiopian Federal First Instance Court 8th Criminal Bench

## **2.2. Vat rules and regulation in Ethiopia-an Overview**

### **2.2.1. Regulations Issued Pursuant to the value Added Tax proclamation**

These regulations are issued by the council of ministers pursuant to Article 5 of the Definition of powers and duties of the executive organs of the Federal Democratic republic of Ethiopia proclamation No4/95(as amended) and Article 64 of the value added tax proclamation No.285/2002.

### **2.2.2. Supply of goods or rendition of services**

- I. For purpose of Article 4, sub-Article (3) of the proclamation treats the supply of goods or the rendition of services to employees as supplies in the course or furtherance of a taxable activity; and therefore unless the transaction is exempt under Article 8 of the proclamation.
- II. A supply of goods or services to employees are treated as supplies for consideration and therefore may be taxed, even if the employee did not pay(or paid less than market value)for the goods, or services.
- III. If an employer:
  - a) Provides and employee a cash advance,
  - b) Pays a supplier on behalf of the employee; or
  - c) Reimburses an employee
    - i. For the cost of goods of services provided as a fringe benefit, the employer is not entitled to claim any portion of the cost as a tax credit because the goods or services provided to the employee are not used in connection with the employer's taxable activity.
- IV. In an employer was denied a tax credit on the purchase of goods or services(such as a passenger vehicle), the supply of those items to an employee is not a supply in connection with a table activity and therefore is not subject to tax.
- V. If a registered person supplies an exempt service(such as medical service at a company-run clinic) to an employee, the service is not subject to tax and the employer is not entitled to tax credits under Article21 of the proclamation for tax on purchases allocable to the exempt services.

### **2.2.3. Taxable activity**

- I. For purposes of the definition of a taxable activity under article 6 of the proclamation, anything done in connection with the commencement or termination of a taxable activity is treated as carried out in the course or furtherance of that taxable activity.
- II. Taxable reactivity does no include;
  - o An activity carried on by a natural person essentially as a private recreational pursuit or hobby or an activity carried on by a person other than a natural person which would, if carried on by a natural person, be carried on essentially as a private recreational pursuit or hobby; or
  - o An activity to the extent that involves the making of exempt supplies.

### **2.2.4. Tax on imports of Goods**

- I. Except where the proclamation provides to the contrary, the provision of the customs proclamation, relating to the import, transit, coastwise carriage, clearance of goods, and payment and recovery of duty, with such exceptions modifications, and adaptations as the minister may by directive prescribe, shall apply, so far as relevant, to the tax charged under the proclamation on the import of goods.
- II. Where tax is payable on an import of goods, the importer shall, upon such entry. Furnish the customs authority with an import declaration and pay the tax due on the import.
- III. The import declaration shall
  - o Be in the form prescribed by the customs authority.
  - o State the information necessary to calculate the tax payable in respect of the import, and
  - o Be furnished in the manner specified by the customs authority.
- IV. The customs authority;-

- o Shall collect at the time of import and on behalf of the authority, any tax due under the proclamation on an import of goods and at the time, obtain the name and the taxpayer identification number, of any, of the importer, and the invoice values in respect of the import; and
  - o Shall make arrangements with the Ethiopia postal services to perform functions on behalf of the customs authority in respect of tax on imports that arrive through the postal services.
- V. Goods covered by an export trade duty incentive scheme under proclamation no.249/2001 are not subject to tax at the time of import, except that tax is payable upon import if the importer is covered by the duty draw-back scheme.

#### **2.2.5. Time of Supply**

- I. Article 3, sub article (6) of the regulations, treats the repossession of goods under a credit agreement as a supply of goods. The supply occurs;
- a. On the day that the goods are repossessed, or
  - b. When the debtor may, under any law, be reinstated in his rights and obligations under the credit agreement, on the day after the last day of any period during which the debtor may under such law be so reinstated.
- II. Article, 4 sub-article (9) of the proclamation treats as a supply of goods, the transfer of the taxable activity (or a portion of a taxable activity) as a going concern. The supply occurs when the transfer under that sub-Article(9) occurs.
- III. Article, 3 sub-article(8) of the regulations, treats the removal of goods subjects to an export trade duty incentive scheme under proclamation no 249/2001 (including a sale into the domestic market) as a supply of those goods in the course or furtherance of a taxable activity in Ethiopia. The supply of those goods occurs when the goods are exported, if they are supplied for export.

#### **2.2.6. Value of a Supply**

- I. The value of a supply may be reduced by any price discounts or rebates allowed and accounted for at the time of the supply of goods or the rendition of series, post-supply price adjustments must be accounted for in accordance with article 13 of the proclamation.

- II. Where a portion of the price of a supply represents tax imposed by the proclamation that is not accounted for separately, the value of the supply is price reduced by an amount equal to the product of the tax.
- III. If a registered person converts a portion of, or an entire good or service from use in a taxable activity to a different use and the person was allowed a tax credit in respect of the acquisition of those goods or services, article 4, sub-Article(2) of the proclamation treats the change in use as a supply of the goods or services in the course or furtherance of a taxable activity. The minister of Revenue may issue a directive on the value of a supply resulting from a change in use under this sub-article.
- IV. The value of a supply of goods under an installment sale or finance lease (credit agreement) is the cash value of the supply. The <<cash value>>, in relation to supply of goods under a credit agreement, means:
  - a. Where the seller or lessor is a bank or other financial institution, an amount equal to the sum of ;
    - i. The consideration paid by the bank or other financial institution for the goods, or the market value of the goods, whichever is the greater, and
    - ii. Any consideration for erection, construction, assembly, or installation of the goods borne by the bank or other financial institution; or
  - b. Where the seller or lessor is a supplier, an amount equal to the sum of :
    - i. The consideration for which the goods are normally sold by the supplier for cash and
    - ii. Any consideration for erection, construction, assembly, or installation of the goods borne by the supplier
- V. When the debtor is deemed to make a supply of goods under Article 3, sub-Article (6) of the regulations as a result of the repossession of goods under a credit agreement, the value of the supply is an amount equal to the balance of the cash value of the supply that has not been recovered at the time of the supply.

#### **2.2.7. Obligatory or Voluntary Registration and Procedure**

- I. The authority may waive the requirement under article 16 of the proclamation to register where the authority is satisfied that the value of a person's taxable

transactions exceeds or will exceeds the amount specified under Article 16, sub-Article(1) of the proclamation solely as a consequence of

- a. Cessation, or substantial and permanent reduction in the size or sale, of a taxable activity carried on by the person, or
- b. The supply of capital goods that are being replaced with other capital goods that are being replaced with other capital goods to be used in the taxable activity carried on by that person.

II. Article 15, sub-Article (4) of the proclamation provides for the date that registration becomes effective. While the registering person may select the data that the registration is to become effective, the authority, in its sole discretion, may change that date to the beginning of an accounting period.

#### **2.2.8. Tax credit Rules**

No tax credit is allowable under Article 21, of the proclamation unless

- a) A tax invoice, or debit or tax credit note, in relation to the supply, has been provided in accordance with articles 22,23 or 13 of the proclamation and the registered person claiming the tax credit is holding that supporting document(unless an invoice is not required) the time any return in respect of the supply is furnished; and
- b) A Customs Declaration as prescribed under the customs proclamation, or a document issued by the customs authority evidencing payment of tax in relation to an import is held by the registered person claiming the credit at the time any return in respect of the import is furnished. The cost incurred to begin or terminated a taxable or exempt activity are taken into account in calculating the allocable tax credits under Article 21 of the proclamation.

#### **2.2.9. Transactions by Agent**

Under this the regulation says:

- I. Where a taxable transaction has been make by an agent one half of the agent's principal as specified under Article 24 sub-Article(1) of the proclamation, and the recipient of the taxable transaction is a registered persons, the agent may issue a tax invoice in accordance with the proclamation in relation to the transition; and

- the principal shall not be able to issue a tax invoice in relation to the taxable transactions.
- II. Where a taxable transaction has been made to an agent on behalf of the agent's principal and the principal is a registered person, at the request, of the agent, a tax invoice shall not also be issued to the principal in relation to the taxable transaction.

#### **2.2.10. Form and Manner of filing Returns**

A return required by Article 26 of the proclamation shall be in the form prescribed by the Authority, and shall: -

- I. State the information necessary to calculate the tax payable for the accounting period in accordance with article 20 of the proclamation, and
- II. Be furnished in the manner prescribed by the authority.

#### **2.2.11. VAT Refund**

- I. Article 27, sub-Article(5)(b) of the proclamation provides that the authority is not obliged to refund excess credits if the amount to be refunded is not more than 50 Birr or less; this amount can be carried forward and credited against tax due in the subsequent accounting period.
- II. Where a registered person applying for a tax refund has failed to furnish a required return, the authority may withhold payment of any amount refundable under article 27 of the proclamation until the registered person furnishes such return.
- III. If the authority does not pay the refund in a timely manner as provided under Article 27, sub-Article (6) the authority shall pay interest calculated from the date on which the refund was due until the date on which the payment of the refund is made.

#### **2.2.12. Assessment of Tax**

- I. The authority may issue an additional assessment in a variety of circumstances, including the case where;



- a. A person fails to furnish a return as required by Article 26 of the proclamation fails to furnish an import declaration as required by Article 5 of the regulations;
- b. The authority is not satisfied with a return or import declaration furnished by a person;
- c. Has reason to believe that a person has become liable for the payment of an amount of tax but has not paid such amount;
- d. A person, other than a registered person, supplies goods or services and represented that tax is charged on the supply;
- e. A registered person supplies goods or services and the supply is not a taxable transaction or is a taxable transaction charged with tax at the rate of zero percent and, in either case, the registered person represents that a positive rate of tax is charged on the transaction; or
- f. The authority has determined the liability of any person in terms of Article 60, sub-Article (2) of the proclamation.

#### **2.2.13. Exemptions**

The following are exempt from value added tax;

- o Dwellings
- o Financial services
- o Supply or import of securities
- o Import of gold for national bank of Ethiopia
- o Religious or Church-related services
- o Medical Services and Prescription Drugs
- o Education Services
- o Supplies of Humanitarian Aid, and Imports of Goods for Rehabilitation after natural disasters, industrial Accidents and Catastrophes.
- o Water
- o Import exempt by law or Agreement
- o Transport
- o Permits and Licenses
- o Imports exempt under schedule 2”B” of customs tariffs regulations

- o Workshops for disabled
- o Books and other printed materials

Even if the study will be made up on large tax payer organization that are registered or VAT, they have relationship with organizations that gives the above exempt services.

### **2.3. Overview of VAT proclamation related to the above regulations**

The value added tax (VAT) proclamation NO285/2002 was issued on 4<sup>th</sup> July, 2002 by the council of representatives to become into force as of 1<sup>st</sup> January 2003. The proclamation has 13 sections and 66 articles.

According to this proclamation tax payers are those person registered or required to be registered; persons carrying out taxable import of goods to Ethiopia, non resident person who perform service without registration for VAT and who are subject to taxation according to the proclamation. As to this proclamation, all persons who are registered are taxpayer from the time the registration took effect and certification of registration is issued. Persons who are not registered but who are required to be registered are also considered as taxpayers from the beginning of the accounting period following the period in which the obligation to apply for registration across.

#### **2.3.1. Supply of Goods and Rendition of services**

Subject to this proclamation;

##### **I. Supply of goods means;**

- a. Sales of goods; or
- b. A grant of the use or right to use goods, whether with or without a driver, pilot, crew, or operator, under rental agreement, credit agreement, freight contract, agreement for charter, or any other agreement under which such use or right to use is granted; or.
- c. A transfer or provision of thermal or electrical energy, gas or water; and

##### **II. A rendition of services means anything done which is not supply of goods or money, including**

- a. The granting, assignment cessation, or surrender of any right; or
- b. Making available a facility or advantage.

- c. If a registered person purchased goods or services accompanied by VAT payment and received (or has the right to receive) appropriate credit, the application of those goods or services to a use other than a use in the course or furtherance of a taxable activity is considered to be a supply of goods or services by that person in the course of furtherance of a taxable activity.
  - d. The supply of goods or rendering of services by an employer to his employees, including a supply of goods or services in the course or furtherance of a taxable activity.
  - e. The disposal of a taxable activity as a going concern, or a part of a taxable activity that is capable of separate operation is a supply of goods made in the course or furtherance of such taxable activity and the transference succeeds to the right and obligations of the supplies with respect to the assets transferred.
  - f. Subject to Sub-Article(12) where
- III. The disposal of a taxable activity, including a disposition of a part of a taxable activity capable of separate operation by a registered person is a supply of goods under sub-article(9);and
  - IV. The supply was charged with tax at the rate of zero percent in terms of sub-Article(2)(d) of Article7; and
  - V. The goods and services comprising the taxable activity were acquired by the recipient wholly or partly for a purpose other than for consumption, use, or supply in the course of making taxable transactions;

The acquisition of the taxable activity is a supply by the recipient in the course or furtherance of a taxable activity carried on by the recipient to the extent that the goods and services comprising the taxable activity were acquired for a purpose other than consumption, use, or supply in the course of making taxable supplies.

Source: from [www.erca.etthe](http://www.erca.etthe) and ERCA Proclamation/Negarit Gazeta

### **2.3.2. Mixed Supplies**

- I. A supply of goods or rendering of services, which is incidental to a (main) supply of goods or rendering of services, is treated as part of the later.
- II. The rendering of services incidental to an import of goods is part of the import of goods.
- III. A taxable transaction involving independent elements, one or more of which involves the separate supply of goods or rendering of services, which would be exempt from tax, is treated as separate transactions. An exempt transaction, which involves independent elements, which involve the separate supply of taxable goods or rendering of taxable services, is treated as separate transactions.

### **2.3.3. Taxable activity**

“Taxable activity” means an activity which is carried on continuously or regularly by any person:

In Ethiopia, or Partly in Ethiopia, Whether or not for a pecuniary profit, that involves or is intended to involve, in whole or in part, the supply of goods or services to another person for consideration.

## **2.4.Imposition of tax and Transactions Exempted from the Tax**

### **2.4.1. Imposition of Tax**

- I. Subject to the provisions of this proclamation and subject to Sub-Article(2), there shall be levied and paid a tax, to be known as Value Added Tax, at the rate or 15% of the value of
  - a. Every taxable transaction by a registered person; and
  - b. Every import of goods, other than an exempt import; and
  - c. An import of services as provided in Article 23
- II. The following taxable transaction shall be charged with tax at rate zero percent;
  - a. the export of goods or services to the extent provided in regulations;
  - b. the rendering of transportation or other services Directly connected with international transport of goods or passengers, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights;

- c. the supply of gold to the national bank of Ethiopia; and
- d. a supply by a registered person to another registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as a going concern provided a notice in writing signed by the transfer and transferees is furnished to the authority within 21 days after the supply takes place and such notice includes the details of the supply.

Source: from [www.erca.et](http://www.erca.et) and ERCA Proclamation/Negarit Gazeta

#### **2.4.2. Exempt Transactions**

- I. For purposes of this article;
  - a) “commercial rental establishment” Means
    - a. Accommodation in any hotel, motel, inn, boarding house, hostel, or similar establishment in which lodging is regularly or normally provided to five or more persons at a daily, weekly, monthly, or other periodic change;
    - b. Accommodation in any house, flat, apartment, or room, other than accommodation in respect of which the provisions of Sub-Article(1) or (3) of this definition apply, which is regularly or systematically leased or held for lease as residential accommodation for continuous periods not exceeding 45days in the case of each occupant of such house, flat, apartment, or room, if the total annual receipts and accruals from the lease there of exceeded 24,000Birr, or there are reasonable grounds for believing that such total annual receipts and accrual will exceed that amount;
- II. As mentioned in the above regulation, the following types of supplies of goods(other than by way of export) or rendering of services; as well as the following types of imports of goods, are exempt from payment of VAT to the extent provided by regulation:
  - a) The sale or transfer of a used dwelling, or the lease of a dwelling;” dwelling” means any building, premises, structure, or any other place or any part there of, used predominantly as a place of residence or abode of

any natural person or which is intended for use as a place of residence or abode of any natural person, together with any appurtenances, belonging there to any enjoyed there with, but does not include a Commercial rental establishment;

- b) The rendering of financial services;
- c) The supply or import of national or foreign currency(except for that used for numismatic purpose),and of securities;
- d) The import of gold to be transferred to the National Bank of Ethiopia;
- e) The rendering by religious organizations or church related services;
- f) The import or supply of prescription drugs specified in directives issued by the minister of Health, and the rendering of medical services;
- g) The rendering of educational services provided by educational institutions, as well as child are services for children at pre-school institutions;
- h) The supply of goods and rendering of services in the form of humanitarian aid, as well as import of goods transferred to state agencies of Ethiopia and public organizations for the purpose of rehabilitation after natural disasters, industrial accidents, and catastrophes;
- i) The supply of electricity, kerosene, and water;
- j) Goods imported by the government, organizations, institution or projects exempted from duties and other taxes to the extent provided by law or by agreement.
- k) Supplies by the post office authorize under the Ethiopian postal services proclamation, other than services rendered for a fee or commission;
- l) The provision of transport;
- m) Permits and license fees;
- n) The import of goods to the extent provided unless schedule2 of the customs tariffs regulations;
- o) The supply of goods or services by a work shop employing disabled individuals if more than 60% of the employees are disabled; and
- p) The import or supply of books and other printed materials to the extent provided in regulations.

- III. A supply of goods or services is not an exempt supply under this article if, in the absence of Sub-Article (2), the supply would be charged with tax at the rate zero percent under article 7, sub-article (2).
- IV. The minister of finance and economic development directive exempt other goods and services.

#### **2.4.3. Adjustment of the value of a Taxable Transaction**

This article applies where, in relation to a taxable transaction made by a registered person;

- I. the transaction is concerned;
- II. the nature of the transaction is changed;
- III. the previously agreed consideration for the transaction is altered, whether due to a reduction of prices or for any other reason; or
- IV. The goods or services are returned in full or in part to the registered person.
  - a. If a registered person has, as a result of the occurrence of one or more of the events described in sub-article 91 of this article;
    - i. Provide a VAT invoice, and the amount of VAT shown on the invoice is incorrect, or
    - ii. Shown an incorrect amount of VAT on a VAT return, then an adjustment is made as specified in Article 20, sub-Article(2) or Article 21, sub-article(2)(a)
  - b. Where a tax invoice has been issued in the circumstances specified under sub-article (2) (a) and the amount shown as tax charged in that tax invoice exceeds the tax properly chargeable in respect of the supply, the registered person making the supply shall provide the recipient of the supply with a tax credit note containing the particulars specified in sub-article (9).

### **2.5. Registration**

#### **2.5.1. Obligatory Registration**

- I. A person who carries on taxable activity and is not registered is required to file an application of VAT registration with the authority if;

- a) At the end of any period of 12 calendar months the person made, during that period taxable transactions the total value of which exceeded 500,000Birr, or
- b) At the beginning of any period of 12 calendar months there are reasonable grounds to expect that total value of taxable transactions to be made by the person during that period will exceed 500,000 birr.
- c) The minister of finance and economic development may be directive increase or decrease the threshold provided for under sub-article 1.
- d) A person required the register shall file an application for registration no later than the last day of the month after the end of the period in sub-article(1)(a), or the last day of the month of the period in sub-article(1)(b).

#### **2.5.2. Voluntary registration**

A person who carried on taxable activity and is not required to be registered for VAT, may voluntarily apply to the authority for such registration, if the regularly is supplying or rendering at least 75% of his goods and services to registered persons.

#### **2.5.3. Registration procedure**

- I. A person applying to register for VAT is required to do so in such a form as in establish by the implementation directives issued by the minister of revenue.
- II. Registration takes place on one of the following dates, depending on which date comes first;
  - a) In case of obligatory registration, on the first day of the accounting period following the month in which the obligation to apply for registration a rose;
  - b) In the case of voluntary registration, on the first day of the accounting period flowing the month in which the person applied for resignation.
  - c) On the date selected by the registered person on his application for registration.
- III. The authority is required to establish and maintain a VAT register containing details of all persons registered for VAT.



## **2.6.Calculation of Tax payable**

### **2.6.1. Tax payable for tax period**

- I. The amount of tax payable for any accounting period by a person who is registered or is required to register is the difference between the amounts of tax. Charged on taxable transactions in accordance with article 7 and the amount of tax creditable under article 21.
- II. In cases described in Article 13, where VAT payable exceeds VAT actually indicated by the registered person, the amount of the excess is treated as VAT due for the accounting period in which the event referred to in article 16 occurred and is added to the amount of tax payable for the accounting period under sub article (1) of this article.

### **2.6.2. Tax Credit**

- I. Except as otherwise provided in this Article, the amount of VAT payable(paid) by a registered person in respect of tax invoices or customs declarations issued to the person for;
  - a) Imports of goods that take place during the current accounting period under article 14; and
  - b) Taxable transactions involving the supply of goods or rendering of services that are considered to take place during the current or preceding accounting period under article 11, where the goods or services as used or are to be used for the purpose of the registered person's taxable transactions.

### **2.6.3. Tax invoices**

- I. Except as otherwise provided in this article, the amount of VAT payable(paid) by a registered person in respect of tax invoices or customs declarations issued to the person for: imports of goods that take place during the current accounting period under article 14; and taxable transactions involving the supply of goods or rendering of services that are considered to take place during the current or preceding accounting period under article 11, where the goods or services as used or are to be used for the purpose of the registered person's taxable transactions.

- II. The registered person is required to issue the VAT invoice to the purchaser of goods or services upon the supply or rendering, but not later than 5 days after the transaction.

#### **2.6.4. Reverse Taxation**

- I. If a non resident person who is not registered for VAT in Ethiopia renders services in Ethiopia for a customer described in Sub-Article(2) of the article, the rendering of services is taxed according to this article.
- II. For purposes of this article, a customer is any person registered in Ethiopia for VAT or any resident legal person.
- III. If the customer is registered for VAT, the withhold tax is payable at the time for filing the VAT return for the accounting period in which the transaction took place. The payment document for payment of the withhold tax is considered to be a VAT invoice and gives the customer the right to a VAT credit according to Article21, sub-Article(1)

### **2.7.Administrative Procedures**

#### **2.7.1. Filing of Tax Return and payment of VAT**

- I. Every registered person is required;
  - a. To file a VAT return with the Authority for each accounting period, whether or not tax is payable in respect of that period;
  - b. To pay the tax for every accounting period by the deadline for filing the VAT return.
- II. The VAT return for every accounting period shall be filed no later than the last day of the calendar month following the accounting period.
- III. VAT or taxable imports are collected by the Ethiopian customs Authority in accordance with this proclamation and the customs legislation of Ethiopia under the procedure contemplated for customs duty.

#### **2.7.2. VAT Refund**

- I. Where the authority is satisfied that a person who made an application for refund under sub-Article(1) or (2) has over paid tax, the Authority will:

- a. First apply the amount of the excess in reduction of any tax, levy interest, or penalty payable by the person under this proclamation, the customs proclamation the income tax proclamation, or the sales and excise tax proclamation: and
  - b. The repay any amount remaining to the person if the amount to be refunded is more than 50 birr.
  - c. Assessment of tax
- II. If , after review by the authority, it appears that a person has understated his tax obligation, the authority shall issue an additional assessment;
  - a. Except as provided in (b), with in 5 years after the end of the accounting period concerned;
  - b. In the case of fraud or gross-or willful negligence, not withstanding any limitation in any other law, at any time.
- III. If the authority makes an additional assessment under Sub-Article(1) and within 30 days of the notice and demand, the person assessed does not pay the additional assessment or appeal the assessment as provided under Article 43, the person is in default.

## **CHAPTER THREE**

### **3. DATA PRESENTATION AND ANALYSIS**

#### **Background of Large taxpayer's office**

Large taxpayer's office (LTO) established in 1992 E.C. Before this period, the office was treated in federal Inland Revenue Authority with other departments. After 1992, this large taxpayer's office treated separately from the other departments and operates with about 580 registered organizations. These organizations have an annual turnover of Br 5,000,000 and above. At the beginning, the registered organizations were only governmental. But now, they are both private and governmental organizations. The major reasons for their separate treatment are; first, they are large tax payers therefore, generates more of government revenue. And second, for controlling and tax auditing purpose. This means if they are combined with EIRA, it is difficult to audit separately. Nowadays, these large taxpayer's organizations pays VAT in LTO office and the office uses computerized collection only for VAT.

#### **Profile of Country Club Developers Real Estate (CCD)**

CCD was established in 2003 and started its business operation after three years in 2006. It is devoted in constructing super luxurious residential houses that stand 1<sup>st</sup> in the competitive market. The company is young in the business but became famous soon because of the quality of service it provides.

The company's head office is located at Bole Sub City around Bras Hospital. And it's construction site is found at Oromia Region around Lege-Tafo 15 km from Megenagna to Debrebrhan road.

CCD is building 10 types of houses (A to J), each varying from 310-513 m.sq total floor area, on a 1000m.sq plot area provided. There are 1100 plots on phase A, another 1000 plots on phase B, and an 18-hole PGA standard Golf Course within 500htr. site area. Public facilities like swimming pools, tennis and basket ball courts, hoarse ridding track, kindergarten, clinic and health center, super markets, Administration, conference hall, library, gymnasium, school and other social activity functions are also included.

Parallel to this CCD produces construction materials like gravels and aluminum works for its own consumption and for sale.

CCD created job opportunity for employees of over 3600, in which over 2800 are contract employees. It also pays a salary that is nearly over two million per month.

Its works are facilitated with modern technologies and software programs that help in monitoring and evaluating the work progress. It also has a web-site <http://www.ccd-homeseth.com> that introduce the company all over the world and that shows the customers especially the diasporas the progress of their houses and there payment status.

### **Profile of ECAS Trading PLC**

ECAS Trading Private Limited Company Starts Business Operation in 1990 E.C. the company has 13 years of experience of its business operation. The main operation of the company is importing computer and computer accessories and then distributing to different regions of the country. ECAS Trading PLC is the main and one of the top distributors of computer and computer accessories in the country.

Currently, it functions at three different locations in Addis Ababa namely:

- I. Bole road around Wello Sefer
- II. Mexico near Shebele Hotel
- III. AratKillo near RasMekonnen.

ECAS created job opportunity for employees of over 60, in which it pays a salary that is nearly over 100 thousand per month. ECAS also build a great tower on Churchill road for different business purpose and rental.

### **Vat Practice and Compliance with the Law in Country Club Developers**

CCD operates as 'Service Provider' type of business. The company imports construction materials especially finishing materials from outside Ethiopia, also produce gravels and purchases construction materials, office equipments and many other goods from the local market. CCD is a registered business organization for VAT, to start with the presentation of its practice of VAT:

- I. The organization purchases different goods for its operations and they receive a pre-numbered VAT invoice when they purchase the goods and services..

- II. The organization also imports different construction goods according to the proclamation law of the countries revenue and custom authorities.
- III. They keep all the accounting records including project costing record such as: -
- a) Material Cost: - All materials purchased for construction purposes, except fixed assets.
  - b) Labor Cost: - Salary, wage, incentives and Sub contract fee for Chinese and local subcontractors
  - c) Overhead Cost: - This includes electricity, telephone, car rent (loader, excavator, . . . ), insurance, water, rent . . .
- IV. Some of the accounting records that the organizations keeps are:
- a. Sequentially numbered cash register VAT invoices,
  - b. Chronologically filled purchases and business expenditure
    - i. Construction Materials
    - ii. Fixed Assets . . .
  - a. Original books of account
  - b. General ledger on every income statement and Balance sheet accounts using different vouchers such as:-
    - i. Vat Receipts
    - ii. Vat Debit Notes
    - iii. Vat Credit Notes
    - iv. Withholding tax on Payment
    - v. Cash Receipt voucher
    - vi. Cheque payment Voucher
    - vii. Journal Voucher
  - c. Subsidiary ledgers
    - i. Vendor information
    - ii. Customer information
    - iii. Purchasers
    - iv. Staff loans . . .
  - d. A perpetual inventory record that is recorded both at the head office and site with different software program to help to reconcile and cross check.

- i. The company records purchases, expenditures and fixed assets net of VAT when applicable to taxable transactions/operations.
- V. CCD provides VAT taxable operations.
- VI. The company return for cash to the vendors and reverses VAT input deductions where applicable,
- VII. They maintain a VAT account in the general ledger for recording of VAT liabilities on the supply of goods and services, on the other hand, refunds on purchase of goods and services.
- VIII. The companies do not use any other charge on the invoice that are excluded from the computation of VAT declaration and account details in the VAT system are same, CCD pays tax for every accounting period by the deadline for filing the VAT return. And it is the same for all tax payers that the form and manner of their filing return is as prescribed by the authority and includes;
  - a. The tax payers' identification.
  - b. Computation of Output tax,
  - c. Computation of input tax,
  - d. Commitment, and
  - e. Space for VAT department use only;

Here is a sample of four month tax pay by the company. And you will find the attachment in the annex.

Month	Year	VAT for Goods and supplies	VAT local purchase input	VAT Imported goods	General Expense for VAT
Megabit	2003	4,815,017.38	2,188,388.30	1,295,94.31	
Ginbot	2003	4,149,561.04	2,231,955.58	406,945.95	
Sene	2003	4,104,916.74	1,401,599.32	-	

> They do give any response on a maintaining original invoices received for 10 years in Ethiopia. On the other hand, they maintain a company of all tax invoices

- that they issued and also they maintain customs documentations relating to imports and exports. In practicing these, a company maintains a copy of all tax invoices issued and the customs documentation related to import for 10 years.
- > CCD does provide the recipient with either a tax credit note or tax debit note for any amount of the excess.
  - > They use their tax payer identification number on all VAT invoices and on all tax returns and official communications with the authority.
  - > The company always issue VAT invoice to the person who receives the goods or services when it carryout a taxable transaction. And their invoice includes;
    - o The invoice number and date of the VAT registration certificate,
    - o The name of goods shipped or service rendered.
    - o The amount of the taxable transaction.
    - o The sum of VAT due on the given taxable transaction.
    - o The issue date of the VAT invoice, and the serial number of the VAT invoice
    - o Taxpayer identification number of the purchaser, and
  - > They respond the invoice does not include the following items;
  - > The amount of the excise on excisable goods. Because, there are no excisable goods, the company never issued its cash sales invoice post to sales date.
  - > The company files a VAT return with the Authority for each accounting period whether or not tax is payable in respect of that period. They respond that when they file an application for VAT refund, the authority do not refund the amount within the period. They do not give any response regarding to applying a tax refund in a timely manner and also regarding to the Authority's payment of the refund in a timely manner. When the authority is late to pay, it does not pay interest calculated from the date on which the refund was due until the date on which the payment of the refund is made for them
  - > CCD does not use a transaction by agent. So, the issuer of the invoice in relation to the taxable transaction is the organization itself.
  - > CCD did not paid an interest on late payment VAT tax in the past.
    - o This is all about CCD practice on VAT and how does VAT work



- > CCD provides both VAT taxable operations and tax-exempt operation.
- > The company return goods for credit to the supplier and reverses VAT input deductions where applicable,

### **VAT Practice and Compliance with the Law in ECAS Trading PLC**

ECAS Trading Private Limited Company operates in 'Retailer', 'Whole seller' and 'Maintenance service' type of business. The company is an importer and it 75% imports computers and computer accessories from outside. ECAS Trading PLC is a registered business organization for VAT, to start the presentation of its practice of VAT,

- > The company Purchases different goods for its operations and they receive a pre-numbered VAT invoice when they purchase the goods.
- > They keep all the accounting records except project costing record because they have no operations on a project basis. Some of the accounting records that the company keeps are:
  - o Sequentially numbered VAT cash sales invoices,
  - o Chronologically filled purchases and business expenditure
  - o Original books of account
  - o General ledgers,
  - o Subsidiary ledgers, and
  - o Perpetual inventory records
- > The company record purchases expenditures and fixed assets net of VAT when applicable to taxable transactions/operations.
- > ECAS Trading PLC provides VAT taxable operations.
- > The company return goods for credit to the supplier and reverses VAT input deductions where applicable,
- > They maintain a VAT account in the general ledger for recording of VAT liabilities on the supply of goods and services, on the other hand, refunds on purchase of goods and services.
- > The companies do not use any other charge on the invoice that are excluded from the computation of VAT declaration and account details in the VAT system are same, ECAS Trading pays tax for every accounting period by the deadline for

filing the VAT return. And it is the same for all tax payers that the form and manner of their filing return is as prescribed by the authority and includes;

- o The tax payer's identification.
- o Computation of Output tax,
- o Computation of input tax,
- o Commitment, and

> Here is a sample of four month tax pay by the company. And you will find the attachment in the annex.

<b>Month</b>	<b>Year</b>	<b>VAT for Goods and supplies</b>	<b>VAT local purchase input</b>	<b>VAT Imported goods</b>	<b>General Expense for VAT</b>
<b>Meaziya</b>	2003	823,383.66	119,864.65		6,966.38
<b>Ginbot</b>	2003	494,686.94	45,141.89	2,534,624.51	10,098.56
<b>Sene</b>	2003	2,274,529.36	22,120.30	1,790,756.64	15,998.79

- > Space for VAT department use only;
- > They do not give any response on a maintaining original invoices received for 10 years in Ethiopia. On the other hand, they maintain a company of all tax invoices that they issued and also they maintain customs documentations relating to imports and exports. In practicing these companies maintains a copy of all tax invoices issued for 10 years. And the customs documentation relating to both imports and exports only for 8years.The company import goods that are tax payable. In this case the company furnishes the customs Authority with an import declaration. So, in this case, the company included the following information on the import declaration;
  - o Invoice price,
  - o Insurance,
  - o Freight charge,
  - o Bill of loading number, and bank permit No.

- > ECAS Trading PLC does not provide the recipient with either a tax credit note or tax debit note for any amount of the excess.
- > They use their tax payer identification number on all VAT invoices and on all tax returns and official communications with the authority.
- > The company always issue VAT invoice to the person who receives the goods or services when it carryout a taxable transaction. And their invoice includes;
  - o The invoice number and date of the VAT registration certificate,
  - o The name of goods shipped or service rendered.
  - o The amount of the taxable transaction.
  - o The sum of VAT due on the given taxable transaction.
  - o The issue date of the VAT invoice, and the serial number of the VAT invoice
- > They respond the invoice does not include the following items;
- > Taxpayer identification number of the purchaser, and
- > The amount of the excise on excisable goods. Because, there is no excisable goods. The company never issued its cash sales invoice post to sales date.
- > The company files a VAT return with the Authority for each accounting period whether or not tax is payable in respect of that period. They respond that when they file an application for VAT refund, the authority do not refund the amount within the period. They do not give any response regarding to applying a tax refund in a timely manner and also regarding to the Authority's payment of the refund in a timely manner. When the authority is late to pay, it does not pay interest calculated from the date on which the refund was due until the date on which the payment of the refund is made for them
- > ECAS Trading PLC does not use a transaction by agent. So, the issuer of the invoice in relation to the taxable transaction is the company itself.
- > The company use market value. This means they value an import of services that are taxable at its market value,
- > ECAS Trading PLC did not paid an interest on late payment VAT tax in the past rather the company paid a penalty one times for the past periods because of late payment VAT tax.

o This is all about ECAS Trading PLC practice on VAT and how does VAT work

- > ECAS Trading PLC provides VAT taxable operations.
- > The company return goods for credit to the supplier and reverses VAT input deductions where applicable,
- > They maintain a VAT account in the general ledger for recording of VAT liabilities on the supply of goods and services, on the other hand, refunds on purchase of goods and services.

## **CHAPTER IV**

### **4. SUMMARY CONCLUSION AND RECOMMENDATION**

#### **4.1. Summary**

There are many rules and regulations that the taxpayer should comply with, in this part, the study analyze the selected large tax payer's practice of VAT and compare the selected

large taxpayers with each other, and also conclude that whether or not the selected large taxpayers are complying with the existing laws.

In comparison of the type of business for these two companies which are ECAS trading PLC and Country Club Developers, both are registered for VAT because both incur a capital of over 500,000 Birr.

ECAS is a retailer and wholesaler but CCD is a service type of business organizations. ECAS trading PLC and Country Club Developers imports their goods or raw materials from outside the country. So both ECAS trading PLC and Country Club Developers import goods that are tax payable. In this case, according to the council of ministers regulation No 79/2002, where tax is payable on an import of goods, the importers shall, upon such entry, furnish the customs authority with an important declaration and pay the tax due on the import. The import declaration shall be in the form prescribed by the customs Authority and shall state the information necessary to calculate the tax payable in respect of the import and also be furnished in the manner. Specified by the customs Authority, so both comply with this law on the information included in this import declaration they includes; invoice price, insurance, freight charge, bill of loading number and Bank Permit Number and all these are necessary to calculate the tax payable in respect of the import. Still, even ECAS Trading PLC and CCD itself do not indicate that whether or not they furnish in the manner specified by the customs authority.

Regarding to the accounting system, according to ERCA VAT audit manual, a taxpayer is at least expected to keep, sequentially numbered VAT cash and credit sales invoices, chronologically filled purchases, and business expenditures, original books of accounts, general ledges, subsidiary ledgers, perpetual inventory records, and project costing record. In this case, the selected large tax payers comply with this law. These provide details of the taxpayer's taxable. And the selected large taxpayers records purchases, expenditure and fixed assets net of VAT, when applicable to tax operations. So it can be concluded that the selected large taxpayers are reliable on their accounting system and they are accountable for VAT.

The selected large tax payers are the same in the following practices.

- They return goods for credit to the supplier and reverses VAT input deductions where applicable.

- They maintain a VAT account in the general ledgers for the recording of VAT liabilities on the supply of goods and services.
- They also maintain a VAT account in the general ledger for the recording of VAT refunds on purchase of goods and Services.
- They do not use other charge on the invoice that is excluded from the computation of VAT on output.

So, according to that VAT audit manual, they are reliable in their accounting system.

- Regarding to the VAT invoices, ECAS Trading PLC and CCD receive a pre-numbered VAT invoice when they purchase goods and they respond that their invoice includes a taxpayer identification number of the invoice.
- ECAS Trading PLC does not issue VAT invoice post to sale date. In this case, It is complying with the given law. In other respects of their invoice, they are the same, the include on their invoice that;
  - o The invoice number and date of the VAT registration certificate,
  - o The amounts of the taxable transactions,
  - o The sum of VAT due on the given taxable transactions,
  - o The issue date of the VAT invoice, and
  - o The serial number of the VAT invoice.

The selected large tax payers do not include the amount of excise on excisable goods in their invoice.

- Regarding to filling the VAT return, according to the proclamation No285/2002 of Article 26 sub article 1, every registered person is required to file a VAT return with the authority for each accounting period, whether or not tax is payable in respect of that period and to pay the tax for every accounting period by the deadline for filing the VAT return. In this case, according the responses of the selected large taxpayers practiced in complaining with the law.
- According to Article 14 of the regulation, the form and manner of filing VAT returns shall be in the form prescribed by the authority and also be furnished in the manner prescribed by the Authority. And as the researcher noted in the

previous chapter the companies file in this form and manner because currently the authority itself prepares the same VAT declaration form to file their VAT return.

- Regarding to ‘record keeping’, according to Article 37 of the proclamation No,285/2002,a registered person or any person liable for tax under the proclamation maintain for 10 years in Ethiopia:
  - Original tax invoices received by the person,
  - A copy of all tax invoices issued by the person,
  - Customs documentation relating to imports and exports by the person,
  - Accounting records; and
  - Any other records as may be prescribed by the Minster of revenue by directive.

Even though CCD is operating less than 10 years, it maintains all these records from the time it start the business. But ECAS Trading PLC maintains this document only for 7 years though it operates for more than 10 years. Though article 45 letter‘d’ says ‘Where a person fails to maintain records required under Article 37- 2,000 Birr for each month or portion thereof that the failure continues.’ None of it is applicable to the company that does not comply this.

## **4.2 Conclusion**

The research can conclude that CCD complies in a better way than ECAS Trading PLC.

According to Article 13 of the Proclamation, when a registered person provide a VAT invoice and the amount of VAT shown on the invoice is incorrect, the amount shown as tax charged in that tax invoice exceeds that tax properly chargeable in respect of the supply, the registered person making the supply

should provide the recipient of the supply with a tax credit note and with a tax debit note when the reverse is done. But, the selected large tax payers do not provide the recipient with either a tax credit note or a tax debit note; therefore, the selected companies does not practice in line with the law and the researcher can conclude that they are not complying with the law.

- Regarding to 'Registration procedure'. According to Article 18 sub Article(7) of the proclamation, a person registered for VAT is required to use his taxpayer identification number on all VAT invoices, and on all returns and official communications with the Authority. And they are all complying with the given law.
- The analysis made on 'filling of tax return and payment of VAT' is according to Article 26 of the VAT Proclamation. According to this Article, every registered person is required to file a VAT Return with the Authority for each according period, whether or not tax is payable in respect of that period. To pay the tax for every accounting period by the deadline for filing the VAT return. And in this case the selected organizations practice is completely complying with this Article. According to Article 27 of the Proclamation, the Authority shall refund the amount for VAT applied as a credit in excess of the amount of VAT charged for the accounting period with a period of two month after the registered person files an application for refund, accompanied by documentary proof of payment of the excess amounts. And out of the selected large tax payers, ECAS, responds that the authority do not refund the amount of VAT applies as a credit rather it off sets with the tax liability that will be payable for the next period. But, CCD says it does not have refundable tax for the past few months except one month in the past.
- Under Article12 of the VAT regulation, the value of an import of services taxable under Article 23 of the proclamation generally is the amount of the consideration that the recipient is obliged to pay for the services, except that if the supplier and the recipient are related person, the value of the import of services. When they value and import of services that are taxable. With these respect, they are complying with the given law.



- According to Article 13 of the regulation, where a taxable transaction has been made by an agent in behalf of the agent's principal and the recipient of the taxable transaction is a registered person, the agent may issue a tax invoice in accordance with the proclamation in relation to the transaction and the principal shall not also issue a tax invoice in relation to the taxable transaction. But, in this case all of the tree large taxpayers do not use transactions by Agent. So, the issuer of the invoice is themselves.
- Both of the selected large tax payers' responds that the authority do not pay interest calculated from the date on which the refund was due until the date on which the payment of the refund is made. But according to Article 15 of the regulation, the authority shall pay the interest if it is late to pay the refund amount. Therefore, this by itself is also contradiction to the regulation issued to the public.

As the researcher mentioned in the above analysis that are; in respect of applying tax refund in a timely manner, filing VAT return, recordkeeping and other the two companies did not practiced, in complying the law.

### **1.3Recommendations**

- a) Some tax payers do not file the necessary information to calculate the tax payable. So, in order to avoid tax evasion the taxpayer should file the necessary information to calculate the tax payable in respect of the import on the import declaration and be furnished in the manner specified by the Ethiopian Revenue and customs Authority.
- b) Taxpayers should develop their practice in receiving a renumbered VAT otherwise invoice may lead to tax evasion
- c) Taxpayers should show the distribution of the copies of the invoice on the bottom of their invoice in order to ensure the rights of the customer, seller, accounting department and storekeeper to have the copy of the invoice.
- d) Under Proclamation No.285/2002, the recipient of the supply has the right to get a tax credit note or tax debit not for any amount of excess. So, tax payers or registered individual or organizations should provide these notes. Taxpayers may

refund the excess amount of the recipient of the supply in some other manner. But it should be on these notes that are prescribed by the authority.

- e) It is obvious that, the amount useful and highly revenue generates activity for government is tax add also it is known that more of this revenue comes from large taxpayers. So, these taxpayers should file a VAT return with the authority for each accounting period and should pay tax for every accounting period by the deadline for filing VAT return. For example, out of the selected large tax payers, ECAS Computer plc. Paid a penalty one time for the past periods. This is because of late payment.
- f) According to the responses of the selected large taxpayers, the Authority, do not refund the amount of VAT applied as a credit. So, the authority should refund the amount of VAT applied as a credit because, this encourage the taxpayers to file their VAT return in a timely manner and pay tax of each accounting period by the deadline.
- g) The selected large taxpayer's responds that, the authority also do not pay the interest amount when it is late to pay the refund amount. So, it should also pay the interest amount of for taxpayers in a timely manner.
- h) According to Article 21, of the proclamation NO 285/2002, taxpayer takes credits only for VAT input credits. Therefore, the researcher recommends that auditors of VAT department in ERCA should confirm the reliability of the taxpayer's accounting system and that the taxpayer is only taking credits for VAT input credits in accordance with the given proclamation.

#### **4.2.Suggestion for further studies**

This study is based on primary and secondary data and the primary data include only questionnaire; a study can be made based on both questionnaire and interview to manners and finance heads. In the present study only two companies were selected; a study also can be made by selection large number of large tax payers to result in a more concrete and better conclusion. And also the present study is based on the view. Another point is this study is focused on VAT practice and compliance with Law; so a study can also be made on the effect of VAT compliance or Noncompliance on Business, Government, etc.

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## **Questionnaire**

1. When is your organization established?
2. What is the objective of your organization?
3. How Many branches the organization has?
4. How many employees do you have?
5. How does the company made to know vat registration? (A voluntary registered or made to registered do your company's capital)
6. From where do you get your working product/material (Local, Import, or Both)?
7. How is your financial record management?
8. What about the automation system in your organization?
9. Do you use a cash sale registration machine? If yes when did you start?
10. Do you provide Vat receipt for your organization?
11. Do you pay your vat on time?
12. How long do you maintain your original financial invoices?
13. What information do you keep in import declaration?
14. Have you ever penalized for violation of Vat declaring?
15. How frequent you get vat return?
16. Do you have a tax exempt operation?

# Appendices

## **DECLARATION**

We, the undersigned, declare that this senior essay is our original work, prepared under the guidance of Ato Tenker .Seyifu . All sources of materials used to the manuscript have been duly acknowledged.

**Name**

**Signature**

Place of Submission;

Date of Submission:

## **SUBMISSION APPROVAL SHEET**

This senior essay has been submitted for examination with my approval as an advisor.

Name:\_\_\_\_

Signature:

Date:\_\_\_\_\_



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